

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6081

BILL NUMBER: SB 11

NOTE PREPARED: Nov 1, 2010

BILL AMENDED:

SUBJECT: Income Tax Rate Adjustment.

FIRST AUTHOR: Sen. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides for a biennial reduction in the state adjusted gross income tax rate on residents, nonresidents, and corporations if the Budget Agency determines that year-over-year revenue from the adjusted gross income tax exceeds certain amounts. It provides that the minimum rate is 2.9% (3.4% for 2011 and 2012) for persons and 8% (8.5% for 2011 and 2012) for corporations. The bill also requires the Budget Agency to make the determination before July 1 of each even-numbered year and for the rate reduction to take effect for taxable years beginning in the immediately following odd-numbered year.

Effective Date: January 1, 2012.

Explanation of State Expenditures:

Explanation of State Revenues: *Summary:* It is estimated that the bill would not lead to rate reductions or revenue losses under the Individual Adjusted Gross Income (AGI) Tax or the Corporate AGI Tax in FY 2013 or FY 2014.

Background Information: The bill would permanently reduce both the Individual AGI Tax rate and Corporate AGI Tax rate if the combined revenue from both taxes is determined to have grown by at least 3.1% over a two-year period. Under the bill, the State Budget Agency is required to determine the two-year average growth rate for the combined net revenue (after refunds) from both taxes. The determination must be made by September 1st of each even-numbered year. The determination requirement begins in 2012. The two-year average growth rate must be based on calendar year revenue from each tax during the three years prior to the even-numbered year in which the determination is made. This means the 2012 determination would be based

on revenue growth from 2009 to 2011. In the event that revenue growth determined by the State Budget Agency is at least 3.1%, the tax rate reduction would begin during the immediately following odd-numbered year - this would be 2013 for the 2012 growth rate determination. Determinations would once again be made by September 1st of 2014, based on the two-year average growth from 2011 to 2013. Any rate reductions based on this determination would begin in 2015. The procedure would continue on this two-year determination cycle thereafter.

The tax rate reduction schedule is specified in the table below. Under the bill, both taxes would be subject to the same tax rate reductions when revenue growth exceeds the levels specified in the table. However, the Individual AGI Tax rate could not be reduced below 2.9% (the current rate is 3.4%); and the Corporate AGI Tax rate could not be reduced below 8.0% (the current rate is 8.5%).

Two-Year Average Growth Rate		Tax Rate Reduction
At Least	Less Than	
3.1%	4.2%	0.1%
4.2%	5.3%	0.2%
5.3%		0.3%

It is estimated that the combined net revenue from the Corporate AGI Tax and Individual AGI Tax could show 0.9% growth for the 2009-2011 period and 2.5% growth for the 2011-2013 period. These estimates are based on long-run average growth for the Individual AGI Tax (from FY 1990 to FY 2010) and the Corporate AGI Tax (from FY 2004 to FY 2010).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency; Department of State Revenue.

Local Agencies Affected:

Information Sources: Revenue Technical Committee Forecast (December 15, 2009).

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